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# inc.

The Handbook of the American Entrepreneur

How  
Philip  
Rosedale  
Created  
**SECOND**  
LIFE

# The Coolest New Marketplace in the World



Why  
Entrepreneurs  
Make Bad  
Investors

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Corporate  
Culture  
If you  
don't lead,  
someone  
else will

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“What you have in Second Life is real and it is yours. It doesn’t belong to us. You can make money.”

Philip Rosedale,  
CEO of Linden Lab

February 2007  
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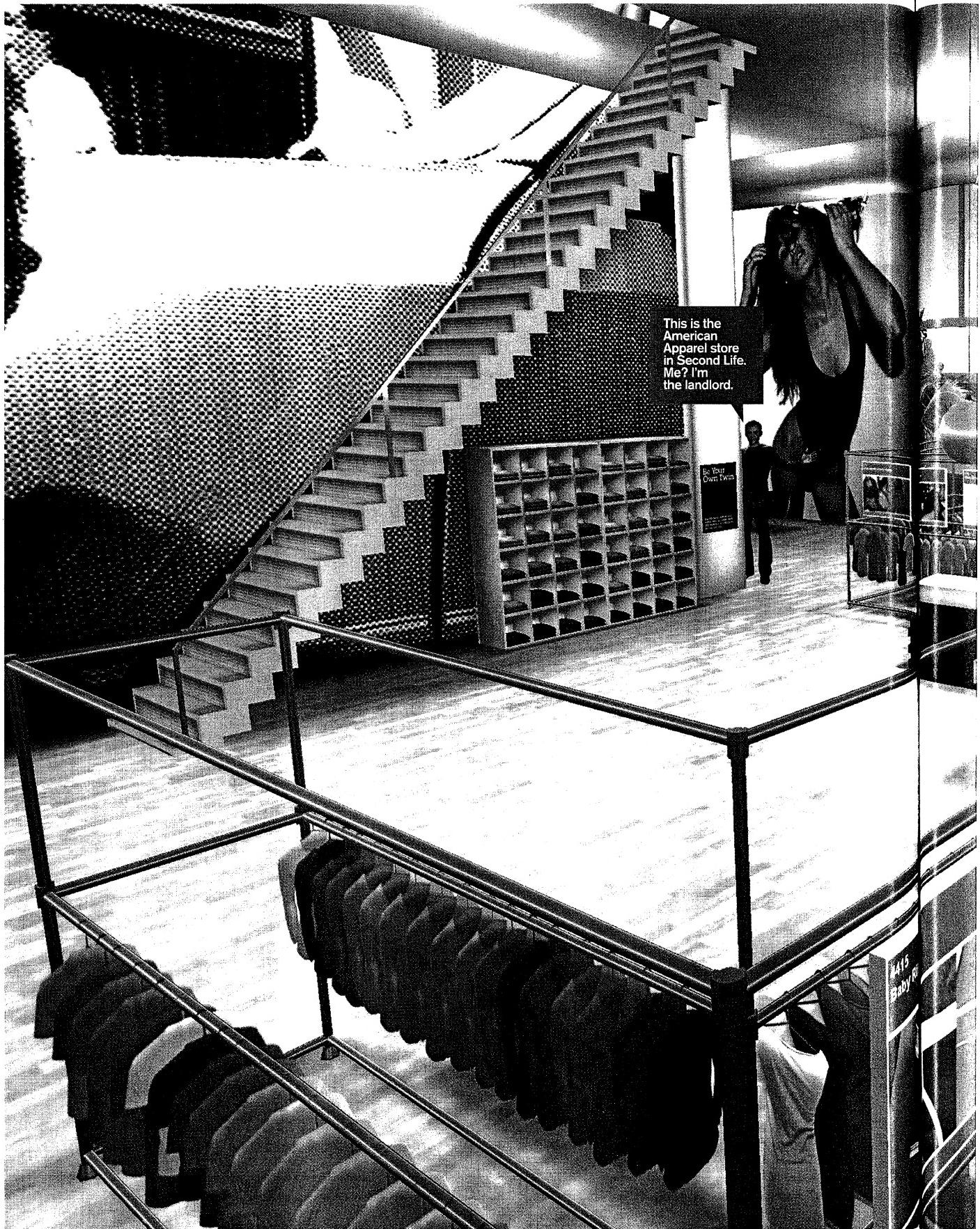
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## How I Did It

Philip Rosedale, CEO  
Linden Lab

# Only the Money Is Real

As told to  
Michael  
Fitzgerald

Second Life is a place where anyone can have just that. It is a richly detailed virtual world where anything a computer programmer can imagine can exist: There are minutely detailed replicas of Rockefeller Center and human-size raccoons; sex and sadism and spiritual retreats; conference calls and a currency exchange. Almost all of it is created by the people who pay to dwell in it. Linden Lab, the San Francisco company that created and owns Second Life, acts as a sort of laissez-

Photograph by Michael Sugrue

## SECOND LIFE

faire government. It makes money primarily by selling property, of which it can conjure an infinite amount.

Second Life seems like an overnight sensation—it drew almost a million new residents in the last two months of 2006, doubling its population. In fact, it began in 1999, when Philip Rosedale quit his job as chief technology officer at RealNetworks to realize his lifelong dream of building a virtual-reality environment. Most people he knew thought he was quixotic and certain to fail. He almost did. No wonder the 38-year-old Rosedale describes the recent onslaught of attention as “almost surreal.”

What’s real is that Second Life is a haven for entrepreneurs, with thousands of businesses selling things ranging from clothes to office buildings to body parts. Business is conducted in Linden dollars, but those can be cashed for cold, hard credit card credits. The in-world economy is now clipping along at \$10 million—those are U.S. dollars—a month. Big companies are popping up, too, experimenting with what might be a look at tomorrow’s three-dimensional Web.

**I was interested in virtual reality** in general from when I was a kid. I was making electronics and programming computers from fifth, sixth grade really seriously. I was really into technology. I was pretty good with my hands and still am. We have a machine shop here and I just like making things. But I always thought the best place to invent would be inside the computer, if we could just get in there.

**I started a company when I was 17** doing database business systems. I put in little computer systems for car dealerships and an architecture firm, did things like that. My little company put me through college. [Rosedale majored in physics at the University of California at San Diego.]

**After college, I moved** to the Bay Area and I moved my office right next to these four guys who were building one of the early Internet service providers. They gave me a line over the ceiling, a big Internet connection. This was 1994. I said, Man, you could use the Internet to hook together a lot of computers. You could simulate a world and then we could all go in there.

**But then I said,** This is a nonstarter right now because for this to be interesting it has to be sexy, it has to be fun, it has to be fast, it has to be within human response times. It has to be like a video game. And in the mid-'90s you couldn't do 3-D on a PC.

**I got interested in video compression.** I said, I bet I could write an algorithm that would compress video well enough to look at people's faces over those little cameras and do live video. So I built

this thing called FreeVue, me and another guy, one of my buddies from physics. You could download it for free on the Internet. You could have six video windows open on the screen at the same time.

**Rob Glaser [CEO of RealNetworks]** saw it and came to talk to us in late 1996. He convinced us he had a great company, a great idea. I decided that while the networking and graphics for virtual reality matured, I would go be one of the early people at RealNetworks. There were a lot of amazingly smart people there and they were going to give me one hell of an engineering management experience.

**I felt that what I was going to build** someday, Second Life, was going to be extremely complex from a systems and software standpoint. I needed some experience working with other people and learning how you get people to work together and work on a really big system. I figured I would get to see all that at Real. And I did.

**In mid-1999, I came back to San Francisco** and I started the office in Hayes Valley, on Linden Alley. That's where we got the name of the company. I hired one guy, Andrew Meadows, who is still here.

**We were steadfast in the belief** that what we were creating was a complex emergent system driven by an economy and the contributions of a lot of people, just like the Internet but in 3-D and live—you were really there. The other thing was this idea that it ought to be a

**“We could convince absolutely no one that what we were doing made sense. People said the technology can’t be made to work, the whole idea is impossible.”**

creative space where people can be entrepreneurial if they want to.

**We always believed that such a place**, such a platform, would be something that you could reasonably charge money for. If it provided the opportunity for other people to make money, you could reasonably charge some fraction of that.

**Second Life was just unfundable.** It was just the dumbest idea ever. Mitch Kapor [the founder of Lotus Development] was the only person who got it. Mitch invested in 2001 after I had invested about a million dollars of my own money. I think some of the early angel investors were largely investing in me. They